The President's Daily Brief

22 December 1973

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THE PRESIDENT'S DAILY BRIEF

December 22, 1973

PRINCIPAL DEVELOPMENTS

By increasing imports and expanding its domestic crop, Egypt is trying to accumulate wheat well in excess of its annual consumption requirement. This suggests that Cairo wants to be ready for a long war, if negotiations are not successful. *(Page 1)*

With Syria absent from Geneva, the Egyptians are under even greater pressure to achieve quick progress and to prove to their Arab allies that Cairo was right in deciding to negotiate. *(Page 2)*

A close adviser of King Faysal has told Ambassador Eilts in Cairo that the King would like to ease the oil embargo, but can do so only if Sadat recommends it, or if there is "some tangible disengagement" on the Arab-Israeli fronts. *(Page 3)*

Saudi Oil Minister Yamani says he will try to keep the lid on prices at the meeting of Persian Gulf members of OPEC. He expects to be fighting a lonely battle, however, and other information suggests his fears are well-founded. *(Page 4)*

Indonesia plans to ask the Arabs to end their oil boycott. The Indonesians will argue that over the long run the boycott harms poor, developing countries more than the intended targets. *(Page 5)*

The current visit to the USSR by the South Vietnam PRG president has prompted the first high-level Soviet criticism of US actions with respect to Indochina since the Paris agreement. *(Page 6)*

The Soviets may hope that Latin American countries will be more willing to buy weapons now that Peru has publicly acknowledged the purchase of Soviet tanks. There is no sign, however, that any new deals are likely soon. *(Page 7)*

Abu Dhabi has bought 18 more Mirage fighters from France. *(Page 8)*

EGYPT

The Egyptians are trying to accumulate wheat well in excess of their annual consumption requirement of 5 million tons. They are requesting delivery from foreign suppliers before June 30, 1974. If the contracts already reported and rumored are fulfilled, imports would total 4 million tons, compared to a normal annual import requirement of 3 million tons.

Moreover, the wheat-growing area in Egypt is to be expanded at the expense of the cotton crop. This will assure expansion of the usual domestic harvest of 1.5 to 2 million tons.

These efforts suggest that Cairo is preparing for the contingency of a long war if the Arab-Israeli negotiations are not successful after about six months.

With Arab aid money now available and still higher wheat prices expected, extra Egyptian wheat purchases would not by themselves be surprising. Record high cotton prices, however, make the conversion of cotton lands to wheat a dubious economic move. In view of the tight international shipping situation and acute postwar congestion at the port of Alexandria, the accelerated import delivery requests are difficult to explain except as war contingency preparations.

EGYPT-USSR

With Syria absent from the Geneva peace conference, Cairo apparently feels under even greater pressure to achieve quick progress and to prove to its Arab allies that its decision to negotiate is justified. Soviet statements may have given the Egyptians some hope that early results can be achieved.

Cairo probably worries that pressures from other Arabs to break off the talks will intensify. Accordingly, Cairo news media are emphasizing that Egypt is going to the conference under the mandate granted it by the Algiers summit in late November, determined to adhere with "utter seriousness" to the summit's demands for total Israeli withdrawal and restoration of Palestinian rights. Foreign Minister Fahmi has also been instructed, according to one leading Cairo paper, to make it clear at the conference that Egypt is seeking an Arab solution, not merely an Egyptian one, and is as concerned for the return of Syrian territory as for the Sinai.

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SAUDI ARABIA

Kamal Adham, King Faysal's brother-in-law and senior adviser, discussed a wide range of issues with Ambassador Eilts in Cairo earlier this week. Although Adham was not necessarily speaking at Faysal's direction, he probably reflected the thinking of the King in many respects.

On the oil embargo, Adham stated that Faysal would like to find a way of "easing" it. At this point, however, Adham claims that the King can ease the embargo only if President Sadat recommends that he do so, or if there is "some tangible disengagement" on the Arab-Israeli fronts. Once either of these developments occurs, the Saudis "will be helpful," according to Adham.

King Faysal's sole concern on Jerusalem remains that in any final settlement the Old City must not be placed under Israeli sovereignty. Adham indicated that internationalization of the formerly Jordanian-held part of Jerusalem might be sufficient.

Faysal is no longer adamant, however, on the return of the rest of the West Bank to Jordan. In fact, Adham stressed the King's flexibility on Jordanian-Palestinian affairs; the King believes the Palestinians should have the option of going "their own way" or staying with King Husayn.

Regarding Syria, Adham expressed some sympathy for the Israeli view that past Syrian action on the Golan Heights justified Tel Aviv's belief that Syria should not get back all of the Heights. Adham indicated that Syria's refusal to attend the Geneva conference was linked to Damascus' fear that disclosure of how few Israeli POWs survived in Syria might so infuriate Israel that disengagement would be impossible.

INTERNATIONAL OIL

Saudi Oil Minister Yamani has told the US Embassy that he will be the only participant at the meeting of Persian Gulf members of the Organization of Petroleum Exporting Countries--which opens today in Tehran--who will try to keep the lid on prices. He commented that he would consider he had done a good job if the sales price of Persian Gulf crude could be kept as low as $6 per barrel--about a 70-percent increase. Yamani said that recent bids of $16-18 per barrel for government sales of Iranian and Nigerian oil had inclined other producers to believe that a tripling or quadrupling of oil prices could be sustained in today's market.

Yamani's opinion of the intention of other OPEC members has been confirmed by conversations between the Shah and Ambassador Helms. According to a message from the US Embassy in Tehran, the Shah is seriously considering a proposal that would tie crude oil prices to costs of alternative sources of energy, which the Shah estimates are the equivalent of $8-14 per barrel.

Price increases of the magnitude mentioned by the Shah would have a strong impact on the balance of payments of oil-consuming nations. Less developed countries, with little hard currency to spare, would be seriously affected unless OPEC arranges for the sale of oil to them under barter agreements.

Skyrocketing oil revenues would mean additional massive accumulations of foreign exchange for such countries as Saudi Arabia, Kuwait, and Libya, which have only limited ability to utilize such an inflow of capital. This problem could lead them to put further restrictions on production.

INDONESIA - ARAB STATES

Indonesia plans to petition the Arab states to end their oil boycott at the Islamic summit meeting scheduled for mid-January in Lahore. Jakarta will argue that in the long run the boycott harms the poor, developing countries more than the rich, industrial ones that are the intended targets.

Although Indonesia is a major exporter of crude oil itself, it is suffering from sharply increased import prices for fertilizer and other petrochemical products and for finished industrial goods like steel. Industrial states are passing spiraling energy costs along to their consumers, forcing underdeveloped states like Indonesia to spend foreign exchange earmarked for development projects.

Indonesia's petition is unlikely to affect decisions on the oil boycott, and may well increase Arab doubts about the sincerity of Jakarta's support for the Arab cause. Indonesian leaders think it important, however, to underline the point that the boycott is a double-edged sword cutting friend as well as foe.

USSR-VIETNAM

South Vietnam PRG president Nguyen Huu Tho's visit to the USSR has prompted the first high-level Soviet criticism of US actions in Indochina since the Paris agreement. The visit does not appear to have resulted, however, in stronger Soviet support for the South Vietnamese Communists.

For over a month, Moscow has been taking a somewhat harder public line on US activity in Indochina. The Soviets have repeated Vietnamese Communist allegations that US military aid to South Vietnam has increased and that US military personnel remain in South Vietnam in civilian guise.

At a banquet in honor of Tho on December 18, President Podgorny accused the US of supporting Saigon's attempts to "sabotage the Paris agreements" and demanded an end to "provocations." Podgorny softened his statement with an optimistic allusion to Secretary Kissinger's meeting with North Vietnamese negotiator Le Duc Tho, and, in pledging support for the Vietnamese, Podgorny did not go beyond what the Soviets have said since last January.

The Soviets seemed anxious to give Tho treatment that paralleled what he had received in China, where he had seen Mao and signed an aid agreement. In Moscow, Tho had a meeting with party leader Brezhnev and signed a new economic aid agreement. Podgorny may have felt that Chinese criticism of the US during Tho's visit to Peking required a similar statement from the Soviets.

PERU-USSR

Moscow may hope that Latin American countries will be less hesitant to buy Russian weapons now that President Velasco has publicly acknowledged the purchase of Soviet tanks. The Soviets have also offered to sell patrol boats to Peru, but this overture is not new; Moscow reportedly offered these as early as 1970. Peru will probably put off agreeing to buy other Soviet equipment at least until all the tanks are delivered and evaluated.

There is no sign that other Latin American countries are about to purchase Soviet arms, although one--Ecuador--reportedly has been offered excellent terms on MIG-21s. Both Ecuador and Peru have complained that Congressional restrictions on sales of US arms have forced them to look elsewhere for their military needs.

NOTE

Abu Dhabi - France - Pakistan: Abu Dhabi has bought Mirage jet fighters from France, its second such purchase in the last two years. The agreement, signed on December 13, provides for the delivery--beginning two years from now--of 18 Mirage IIIs valued at an estimated $50-55 million. Abu Dhabi ordered 14 Mirage 5s in 1972. Three have been delivered, and the other 11 are scheduled to arrive in 1974. [redacted]

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